

EXECUTIVE SECRETARIAT**ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	NIO/ECON		X		
18	D/OGI		X		
19	ES		X		
20					
21					
22					

SUSPENSE

Date

Remarks

Executive Secretary

ON FILE NSC RELEASE INSTRUCTIONS APPLY

3637 (10-81)

STAT

minutes

4312/1

**THE WHITE HOUSE
WASHINGTON**

full

7 Nov 85

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 12/5/85 **Number:** 317034CA **Due By:** _____

Subject: Cabinet Council Minutes

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>CIA</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:		
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	DPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input checked="" type="checkbox"/>	EPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Attached for your information are the minutes of the following Economic Policy Council Meetings:

November 4, 1985
November 5, 1985
November 7, 1985

RETURN TO:

☒ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director

MINUTES
ECONOMIC POLICY COUNCIL

November 4, 1985
2:00 p.m.
Cabinet Room

Attendees: The President, Messrs: Baker, Block, Hodel, Baldrige, Brock, Herrington, Regan, Miller, Yeutter, Sprinkel, Whitehead, Darman, Jensen, Kingon, McAllister, Daniels, Ogelsby, Svahn, Thomas, Chew, Dawson, Khedouri, Naylor, Sethness, and Stucky, and Ms. Dole.

1. Farm Credit System

Secretary Baker stated that the purpose of the meeting was to review the financial status of the Farm Credit System (FCS) and the legislative outlook in Congress. He noted that the Economic Policy Council devoted a great deal of attention to the issue of the Farm Credit System, meeting several times on the issue in recent weeks. In addition, he told the President that the Council met with representatives of the FCS and the Farm Credit Administration (FCA) to convey the Administration's concern with the System's problems and willingness to help them solve their problems.

Secretary Baker reiterated the President's previous decision that the Administration in testimony regarding the FCS should express our support for the following:

1. Restructuring the FCA into a true regulator;
2. Creating authorities for the Farm Credit System Capital Corporation (FCSCC) to fully mobilize within the system the FCS's earned surplus to absorb operating losses and manage troubled loan assets;
3. Assessing the need for Federal financial assistance, provided Congress enacts legislation achieving the regulatory and operating reforms outlined above.

Mr. Naylor stated that the poor condition of the Farm Credit System is indicative of the condition of the farm sector in general, with the Corn and Grain Belts in particular experiencing significant declines in land values. According to Mr. Naylor, the number of farmers affected by these declines also has been significant -- nearly 10 percent of farmers are in a highly leveraged position. He noted that the volume of loans made by

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the Farm Credit System has grown substantially since 1976, particularly in terms of short-term credit outstanding. For example, he pointed out that one-half of outstanding loans of the Omaha District bank, which is in serious trouble, were made over the period 1979-81. Other district banks that are experiencing or will experience difficulties include St. Paul, Wichita, and Louisville.

Mr. Naylor explained that rapid growth of the Farm Credit System has created managerial problems. He reported that the FCS has undertaken an internal financial assessment of its condition headed by the accounting firm of Price Waterhouse. According to Mr. Naylor, under reasonable assumptions the FCS can expect \$6 billion in losses over the next three years. In addition, he noted that of the FCS's \$74 billion portfolio, \$13 billion represent bad loans. However, he said, the FCS has accumulated a strong balance sheet including substantial earned surplus and capital of roughly \$12 billion.

Mr. Naylor stated that the Economic Policy Council believes the FCS can solve its own problems, provided it maintains access to the financial markets. He stated that the Economic Policy Council reached the following conclusions regarding the FCS:

1. Inadequate regulation has contributed to the problems of the FCS. The FCA lacks the authority and enforcement powers necessary for effective oversight.
2. Lack of centralization within the System prevents the pooling of financial and managerial resources. The Council has agreed that legislative changes are necessary to permit the mobilization of the FCS's resources.

Mr. Naylor reiterated that the Administration has agreed to assess whether some form of Federal financial assistance is necessary but only after regulatory restructuring of the FCA and consolidation of the FCS's resources. He stated that Congress appears willing to move legislation resolving the FCS's difficulties on a fast track and that legislation affecting the FCS may be approved before the end of the year.

Secretary Block pointed out that the FCS provides one-third of the nation's farm credit. As the System absorbs bad loans, he said, it must raise rates on other loans, placing a greater burden on farmers. He suggested that it is critical that the FCS be able to borrow in the markets at reasonable rates which can be passed along to farmers.

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Mr. Whitehead agreed that the critical issue is the FCS's ability to continue borrowing in the markets. Secretary Baker suggested that requiring creditors to absorb loan losses would make it extremely difficult to issue new FCS securities.

Mr. Regan noted that the FCS is a private institution, similar to Chrysler and Continental Illinois. He suggested that Federal financial assistance would serve to protect the FCS's creditors and is not a Federal responsibility.

Dr. Sprinkel stated that Federal financial assistance to the FCS would create the wrong incentives. For example, he said, holding out the possibility of Federal assistance would create an incentive for the FCS to dissipate its assets and would encourage agricultural banks and other financial institutions, including LDC lenders, to seek Federal assistance. He stated that the current status of the FCS is symptomatic of a fundamental problem in the agricultural sector.

Ambassador Yeutter cautioned that if the farm credit problem is not solved this year, Congress will take it up in the more emotional atmosphere of the spring planting period. He suggested the timing is critical to the legislative strategy.

Steel and Citrus-Pasta Negotiations

Ambassador Yeutter stated that the United States and the Economic Community (EC) have tentatively agreed on an extension of the Steel Arrangement that would lower shipments from the EC by twenty percent below 1985 levels. He cautioned, however, that the British may veto the Arrangement as it would preclude their shipping of semifinished steel into a new steel plant in Tuscoloosa, which is owned in part by British interests.

Ambassador Yeutter stated that an October 31 deadline chosen by the EC for a citrus-pasta resolution has passed without an agreement. The EC did not make an offer until October 31 and that the offer was inadequate to the United States. He explained that the United States has retaliated against pasta imports, as we stated we would, and the EC has countered by imposing tariffs on walnuts and lemons. According to Ambassador Yeutter the U.S. will resume negotiations on the citrus-pasta issue within the next two weeks.